Essentials of

Services Marketing

3rd Edition

9 Distributing Services through PHYSICAL AND ELECTRONIC CHANNELS

WIRTZ LOVELOCK

Learning Objectives

9.1 Know the different demand–supply situations that fixed-capacity firms may face.

9.2 Describe the building blocks of dealing with the problem of fluctuating demand.

9.3 Understand what is meant by productive capacity in a service context.

9.4 Be familiar with the basic ways to manage capacity.

9.5 Recognize that demand patterns vary by segment and examine how segment-specific variations in demand may be predicted

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Learning Objectives

9.6 Be familiar with the five basic ways to manage demand.

9.7 Understand how to use the marketing mix elements of price, product, place, and promotion to smooth out fluctuations in demand.

9.8 Know how to use waiting lines and queuing systems to inventory demand.

9.9 Understand how customers perceive waits and how waiting may be made less burdensome for them.

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Learning Objectives

9.10 Know how to use reservations systems to inventory demand.

9.11 Be familiar with strategic approaches to utilize residual surplus capacity even after all other options of matching demand and capacity have been exhausted.

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9.1

Know the different demand–supply situations that fixed-capacity firms may face.

Demand-Supply Situations that fixed-capacity firms may face

- **Four conditions potentially faced by fixed-capacity services**
- Excess demand:
  - Too much demand relative to capacity at a given time.
- Demand exceeds optimum capacity:
  - Upper limit to a firm's ability to n
    given time.
- Optimum capacity:
  - Point beyond which service quali
    declines as more customers are
    serviced.
- Excess capacity:
  - Too much capacity relative to demand at a given

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Demand-supply situations that fixed-capacity firms may face

Variations in Demand Relative to Capacity

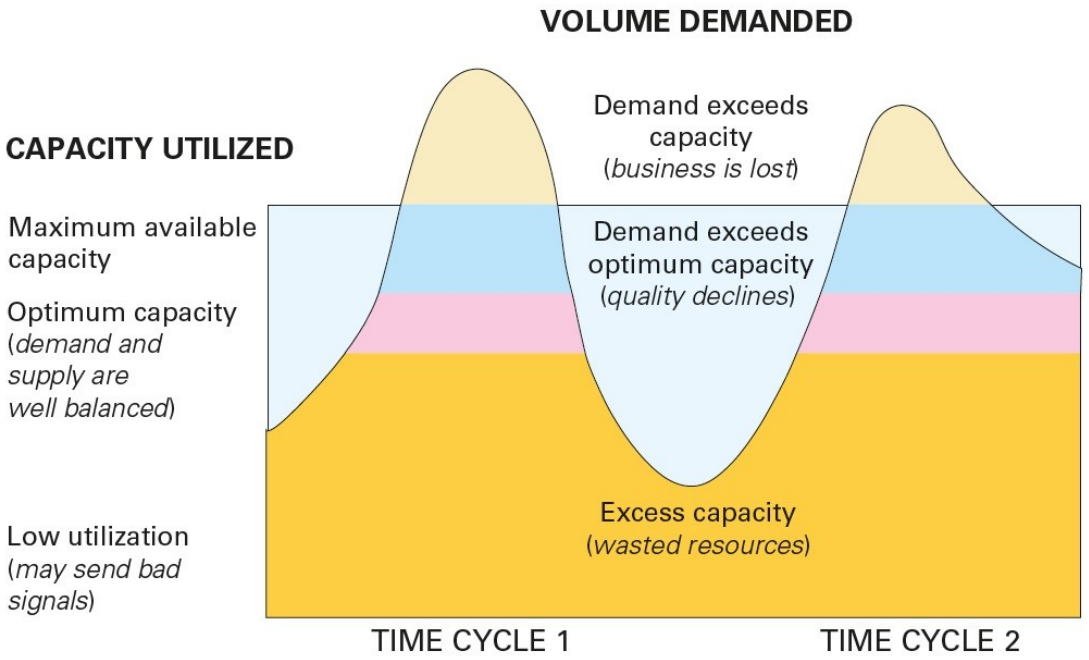
VOLUME DEMANDED
CAPACITY UTILIZED
Maximum available capacity
Optimum capacity (demand and supply are well balanced)
Low utilization (may send bad signals)
Demand exceeds capacity (business is lost)
Demand exceeds optimum capacity (quality declines)
Excess capacity (wasted resources)
TIME CYCLE 1
TIME CYCLE 2

Figure 9.2 Implications of variations in demand relative to capacity.

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9.2

Describe the building blocks of dealing with the problem of fluctuating demand.

The problem of fluctuating demand

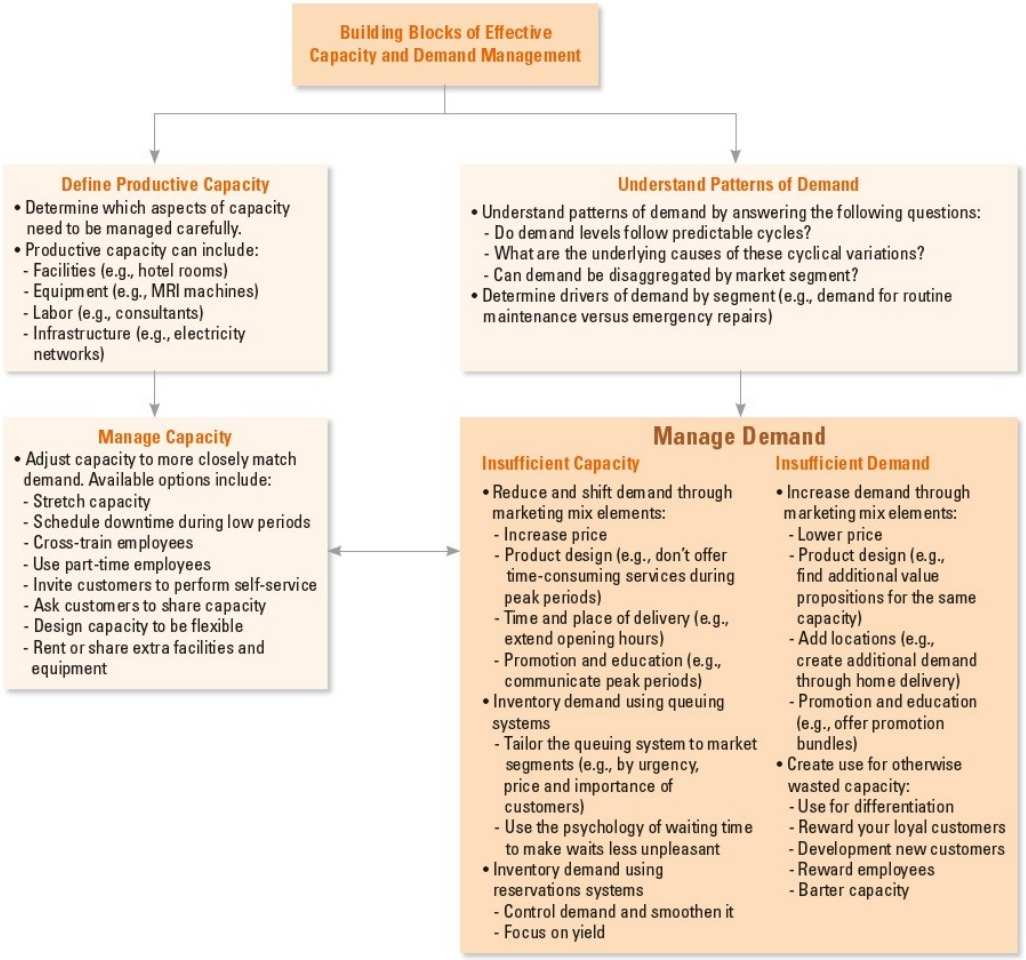
Building Blocks of Effective Capacity and Demand Management
Define Productive Capacity
• Determine which aspects of capacity need to be managed carefully.
• Productive capacity can include:
- Facilities (e.g., hotel rooms)
- Equipment (e.g., MRI machines)
- Labor (e.g., consultants)
- Infrastructure (e.g., electricity networks)
Understand Patterns of Demand
• Understand patterns of demand by answering the following questions:
- Do demand levels follow predictable cycles?
- What are the underlying causes of these cyclical variations?
- Can demand be disaggregated by market segment?
• Determine drivers of demand by segment (e.g., demand for routine maintenance versus emergency repairs)
Manage Capacity
• Adjust capacity to more closely match demand. Available options include:
- Stretch capacity
- Schedule downtime during low periods
- Cross-train employees
- Use part-time employees
- Invite customers to perform self-service
- Ask customers to share capacity
- Design capacity to be flexible
- Rent or share extra facilities and equipment
Manage Demand
Insufficient Capacity
• Reduce and shift demand through marketing mix elements:
- Increase price
- Product design (e.g., don't offer time-consuming services during peak periods)
- Time and place of delivery (e.g., extend opening hours)
- Promotion and education (e.g., communicate peak periods)
• Inventory demand using queuing systems
- Tailor the queuing system to market segments (e.g., by urgency, price and importance of customers)
- Use the psychology of waiting time to make waits less unpleasant
• Inventory demand using reservations systems
- Control demand and smoothen it
- Focus on yield
Insufficient Demand
• Increase demand through marketing mix elements:
- Lower price
- Product design (e.g., find additional value propositions for the same capacity)
- Add locations (e.g., create additional demand through home delivery)
- Promotion and education (e.g., offer promotion bundles)
• Create use for otherwise wasted capacity:
- Use for differentiation
- Reward your loyal customers
- Development new customers
- Reward employees
- Barter capacity

Figure 9.3 Building blocks of effective capacity and demand management.

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9.3

Understand what is meant by productive capacity in a service context.

Productive capacity in a service context

- Productive capacity can take several forms in services:
  - Physical facilities designed to contain customers
  - Physical facilities designed for storing or processing goods
  - Physical equip
    possessions, o
  - Labor
  - Infrastructure

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9.4

Be familiar with the basic ways to manage capacity.

Ways to manage capacity

Alternative Capacity Management Strategies

- Financial success in businesses that are limited in capacity depends largely on how capacity is used.
- Capacity is fixed, but more people are served at the same level of capacity.
- Stretch and shrink:
  - Offer inferior extra capacity at peaks (e.g. bus/train standees)
  - Use facilities for longer/shorter periods
  - Reduce amount of time spent in process by minimizing slack time

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Ways to manage capacity

Adjusting Capacity to Match Demand

- Schedule downtime during periods of low demand
- Cross-train employees
- Use part-time employees
- Invite customers to perform self-service
- Ask customers to share
- Create flexible capacity
- Rent or share extra facilities and

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9.5

Recognize that demand patterns vary by segment and examine how segment-specific variations in demand may be predicted.

Understanding patterns of demand

Demand Varies by Market Segment

- Demand may seem random, but analysis may reveal a predictable demand cycle for different segments.
- Keep good records of transactions to analyze demand patterns.
  - Sophisticated software can help to track customer consumption patterns
- Record weather conditions and other special factors that might influence demand.

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Understanding patterns of demand

Predictable Demand Patterns and Their Underlying Causes (1)

- Predictable Cycles of Demand Levels
  - day
  - week
  - month
  - year
  - other

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Understanding patterns of demand

Predictable Demand Patterns and Their Underlying Causes (2)

- Underlying Causes of Cyclical Variations.
  - employment
  - billing or tax payments/refunds
  - pay days
  - school hours/holidays
  - seasonal climate changes
  - public/religious holidays
  - natural cycles

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Understanding patterns of demand

Predictable Demand Patterns and Their Underlying Causes (3)

- Underlying causes of ran demand levels.
  - Weather
  - Health problems
  - Accidents, Fires, Crime
  - Natural disasters

- Disaggregate demand b market segment for a particular service over time.
  - Use patterns by particular type of customer or for a particular purpose
  - Variations in net profitability for each completed

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9.6

Be familiar with the five basic ways to manage demand.

Managing Demand

Alternative Demand Management Strategies (1)

- Take no action
  - Let customers sort it out
- Reduce demand
  - Higher prices
  - Communication encouraging us of other time slots

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Managing Demand

Alternative Demand Management Strategies (2)

- Increase demand
  - Lower prices
  - Communication, including promotional incentives
  - Vary product features to increase desirability
  - More convenient delivery times and places
- Inventory demand by formalized queuing
- Inventory demand by reservation system

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9.7

Understand how to use the marketing mix elements of price, product, place, and promotion to smooth out fluctuations in demand.

Using the marketing mix elements to shape demand patterns

- Use price and nonmonetary costs to manage demand
- Change product elements
- Modify place and time of delivery
  - No change
  - Vary times when service is available
  - Offer service to customers at a new location
- Promotion and Education

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9.8

Know how to use waiting lines and queuing systems to inventory demand.

Waiting lines and queuing systems

When Demand Exceeds Supply

- Steps to take to inventory demand (keep for use later)
- Asking customers to wait in line (queue), usually on a first-come first-served basis
- Offering customers the opportunity to reserve or book

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Waiting lines and queuing systems

Managing Waiting Lines

- Almost nobody likes to wait
- An average person may spend up to 30 minutes/day waiting in line—equivalent to 20 months in an 80 year lifetime
- Reduce waiting time by
  - Rethinking the design of the queuing system
  - Installing reservations system
  - Tailoring queuing system to different market segments
  - Managing customer behavior and their perceptions of the wait
  - Redesigning processes to shorten the time of each transaction

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Waiting lines and queuing systems

Alternative queuing configurations

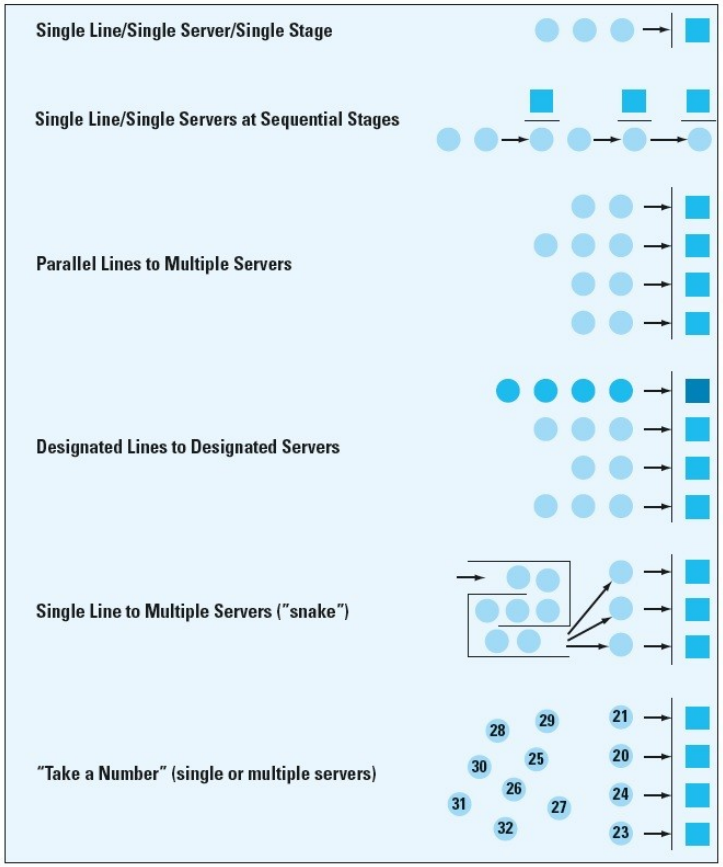

Figure 9.16 Alternative queue configurations.

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Waiting lines and queuing systems

Virtual Waits

- One problem of waiting is the waste of customers' time
- Virtual queues can eliminate the need to wait
- Customers register their place in line on a computer, which estimates the time they need to reach the front of the virtual line, customers then return later to claim their place

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Waiting lines and queuing systems

Queuing Systems

- Allocate queues based on:
  - Urgency of job
  - Duration of service transaction
  - Payment of premium price
  - Importance of customer

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9.9

Understand how customers perceive waits and how waiting may be made less burdensome for them.

Customer perceptions of waiting time

Ten Propositions to Make Waiting More Bearable

- Unoccupied time feels longer than occupied time
- Solo waits feel longer than group waits
- Physically uncomfortable waits feel longer than comfortable ones
- Pre- and post-process waits feel longer than in-process waits
- Unexplained waits are longer than explained waits
- Unfamiliar waits seem longer than familiar ones
- Uncertain waits are longer than known, finite waits
- Unfair waits are longer than fair waits
- Anxiety makes waits seem longer
- People will wait longer for

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9.10

Know how to use reservations systems to inventory demand.

Inventory Demand Through Reservation System

Benefits of Reservations

- Avoid customer dissatisfaction due to excessive waits
- Controls and smooths demand
- Allows implementation of revenue management and preselling of service to different customer segments
- Data captured helps organ
  - Prepare financial projections
  - Plan operations and staffing levels

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Inventory Demand Through Reservation System

Reservations Strategies Should Focus on Yield

- Yield analysis helps managers recognize opportunity cost of allocating capacity to one customer/segment when another segment might yield a higher rate later
- Decisions need to be based on good information
  - Detailed record of past usage
  - Supported by current market intelligence and good marketing sense
  - Realistic estimate of changes of obtaining higher rated business
- When firms overbook to increase yield

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9.11

Be familiar with strategic approaches to utilize residual surplus capacity even after all other options of matching demand and capacity have been exhausted.

Create alternative use for otherwise wasted capacity

- Use capacity for service differentiation
- Reward your best customers and build loyalty
- Customer and channel development
- Reward employees
- Barter free capacity

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Thank You.